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Sugar

EU sugar intervention used for first time in 20 years 2005

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Report Highlights:

Up to 86,000 MT of sugar has been offered into intervention in France and Belgium. The EU sugar regime provides a floor price of EUR 632/MT through intervention purchases. However, no sugar has been offered for intervention for the past twenty years. The weekly export subsidy tenders awarded by the European Commission have been less than the trade expected. This has lead one major sugar producer to use the sugar intervention system. Further offers of sugar into intervention during the remainder of the 04/05 season are possible.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brussels USEU [BE2]
[E3]

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According to trade sources, the export subsidy levels currently being awarded by the Commission are EUR 60 to 70 less than the amount expected by operators. This has lead one major sugar group to offer up to 86,000 MT of sugar for intervention buying in France and Belgium. The sugar, providing it meets the minimum quality standards, is effectively purchased by the European Commission via a Member State intervention agency. Sugar offered into intervention could lead to a comparable reduction in quotas across the EU during the September 2005 declassification calculations.

The Commission can decide when to release the sugar onto the market, though if it is for sale within the EU, it must be sold at least at the intervention price of EUR 631.90/MT. Typically, the Commission would be expected to put the sugar up for tender on third country markets at some point in the future. Only in quota production sugar can be offered to intervention, over quota production (C sugar) is excluded.

In September, the Commission calculates the volume and value of export subsidies required to ensure that the EU sugar sector is in balance. If these calculations show that the EU would breach its commitments, then quotas are cut accordingly¹. The Commission calculations last fall were close to the EU's WTO limits for sugar export subsidies. However, EU sugar production is estimated to be slightly higher than the Commission assumed at that time. Changes to the Euro/US dollar exchange rate have also made the cost of subsidies for the EU higher than the Commission expected (the difference between EU and world prices has grown in dollar terms). An additional problem has been in the New Member States (NMS) where sugar consumption is reported to be lower than expected. It would however probably be more correct to say that sugar purchases have been lower than expected. It would appear that significant quantities of sugar were stockpiled by households in the NMS prior to EU enlargement on May 1, 2004. This stockpiling was due to fears that the cost of sugar would rise significantly following enlargement.

Agriculture Commissioner Fischer Boel's spokesman was quick to use the sugar intervention situation to point out "imbalances" in the current sugar regime, that this action "shows once again the urgent need to reform the system".

¹ This is called 'declassification' in EU jargon, in quota production becomes out of quota production. The in quota production that is declassified to C sugar must then either be exported without subsidies or 'carried over' to count against the following year's quota.

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